

**RECENT EXPERIENCE OF THE
US AGENCY FOR INTERNATIONAL
DEVELOPMENT
IN PROMOTING BUSINESS DEVELOPMENT
SERVICES
FOR MICROENTERPRISES**

**Presentation at the
International Labor Organization
First Annual Seminar on**

**“Emerging Good Practices in
Business Development Services”**

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OVERVIEW

- I. Introduction to USAID's Microenterprise Development Programs**
- II. Summary of USAID Funding for Business Development Services for Microenterprises**
- III. Findings from Survey of FY 1999 Business Development Services Awardees**
- IV. Experience with FY 1999 and FY 2000 BDS Funding Competitions of the Office of Microenterprise Development**
- V. The BDS Research Agenda at USAID**
- VI. Issues for Donors**

Microenterprise Development at USAID

- **Definition of “microenterprise: 10 or fewer employees including unpaid family workers + owned and operated by entrepreneur with limited income and assets. ME definition excludes agricultural production.**
- **Leading funder in the field for more than 2 decades, well over US \$2 billion in total MED support (excluding investments in SME development)**
- **FY 1999 and FY 2000 funding averaged over \$150 million per year**
- **Very decentralized funding structure – over 70 USAID missions overseas have active microenterprise development programs, which are designed and implemented in the field**
- **ME development contributes to a wide variety of mission strategies, including democratization, natural resource management, women’s empowerment, and agricultural development, as well as the more obvious ones of economic growth and poverty reduction**

USAID Microenterprise Development -- continued

- **Funding primarily supports microfinance (roughly 2/3 of overall MED funding) and BDS (roughly 1/3) for microenterprises**
- **While substantial majority of microfinance and BDS funding is channeled through international and local NGOs, growing number of partnerships with commercial firms (e.g., banks, local consulting firms) and other entities such as business associations**
- **Substantial involvement as well in efforts to improve enabling policy/regulatory environment for microenterprises and informal sector policies**
- **Also considerable investment in research on the informal sector (PISCES, ARIES, and GEMINI studies), impact of MED services, and best practices in microfinance and BDS**

USAID's BDS Funding by Region

(Millions of U.S. Dollars)

FY 1999	BDS Amount	BDS Percent	Total Amount
Africa	22.3	54%	41.3
Asia/ Near East	3.5	13%	35.2
Europe/ Eurasia	6.6	26%	25.7
Latin America/ Caribbean	9.7	22%	43.8
Worldwide	4.5	59%	7.5
Total	46.6	30%	153.5

Findings from FY 1999 Survey of USAID-supported BDS Institutions

- **81 institutions responded**
 - **16 in Africa**
 - **14 in Asia and the Near East**
 - **24 in Europe and Eurasia**
 - **26 Latin America and the Caribbean**
 - **1 Worldwide**
- **Providers included PVOs (37%), NGOs (37%), business associations, cooperatives, for-profit organizations and several research institutions.**
- **Average age of respondents was 6 years**

Who Are the Clients?

FY 1999	Entrepreneurs Served <i>Number</i>	Women Clients <i>Percent</i>	Rural Clients <i>Percent</i>	Below poverty line <i>Percent</i>	Very Poor <i>Percent</i>
Africa	181,865	47%	79%	77%	21%
Asia/ Near East	82,929 9,901	74% 12%	88% -	61% 20%	38% -
Europe/ Eurasia	15,552	57%	29%	10%	3%
Latin America/ Caribbean	166,805	81%	44%	76%	37%
Total	457,052	61%	67%	69%	27%

Who Are the Clients?

(FY 1999 continued)

- **In addition to the 457,052 clients noted in the table, business services were provided to many more microentrepreneurs through another 1,680 organizations that received training and other business support services from USAID-supported institutions.**
- **40% of BDS clients work in commerce or trade, 33% in agriculture or agribusiness, 12% in the service industry, 10% in manufacturing, and 4% in other sectors.**
- **Clients are predominantly women in rural areas.**
- **66% of the businesses are existing enterprises.**

Recent MD Office BDS Funding Rounds

Annual worldwide funding competitions run in 1999 and 2000 by the Office of Microenterprise Development. Two-year awards for up to \$750,000.

What were we looking for?

- **Impact -- services with the clear potential to support microenterprise start-ups and strengthen existing microenterprises through increased profitability and productivity, increased ability to withstand market fluctuations, and faster growth**
- **Demand-driven -- products and services designed to meet documented client demand, including client willingness to “pay”**
- **Sustainability orientation – BDS products and services delivered with a cost-recovery orientation and designed to require finite dependence on donor subsidy**

What Were We Looking For? --Continued

- **Effectiveness – evidence that BDS works and delivers benefits to clients**
- **Scale – existing or potential**
- **Targeted – especially to smaller firms, women and entrepreneurs who are poor**
- **Local institutions with staying power vs. projects -- but open to a variety of institutional types and business models, as long as there was demonstrated management capability to deliver BDS**
- **BUT focus on product/service innovation and commercialization rather than on institutional development.**

In short, we wanted everything! Trying to go about funding BDS with at least a more market-oriented, demand-driven orientation if not complete application of the BDS market development approach.

What Did We Get?

The applicant pool:

- **80 proposals received from NGOs, commercial firms, business associations, educational institutions**
- **About half were for training/advisory services – of those, half were proposed by microfinance-affiliated institutions or were bundled with credit**
- **25 were for marketing services and 18 for technology**
- **bundling of services rather common**
- **larger number of proposals from Africa and Latin America but good representation from Asia, the Middle East, and former Soviet Union as well**
- **some specific targeting – women, refugees or “internally displaced persons,” demobilized veterans, disadvantaged ethnic minorities**

What Did We Fund?

The grantees:

- **12 applications selected for funding**
- **4 facilitators, 6 providers, 2 with elements of each**
- **Half were marketing-related, 5 were for training/advisory services, 1 was technology diffusion**
- **7 were from Latin America, 4 from Africa, 1 from North Africa (reflects budget availability as well as proposal quality)**
- **Average award around \$500,000**

Observations from a Funder's Perspective

- **Many proposals were vague, lacked focus, trying to do too many different things**
- **Too many applicants were proceeding without much solid documentation of client needs and demand for the proposed services**
- **Marketing proposals more tangible, so higher scores**
- **Attracted to proposals with truly private sector partners, due to stronger case that the entrepreneur would be able to tap new and more lucrative markets – but residual concern re private partner's motivation and extent of likely microenterprise benefit**
- **Proposals that made the case for intervening around specific products, services, and subsectors (including agriculture) fared better**
- **Expecting clients to pay for services or otherwise acquire them on a commercial basis is still rather a new concept to our applicants**
- **Programs much smaller than microfinance programs, on average**

Lessons and Challenges

- **Still very challenging to determine whether applicant is applying best or even good practices for their BDS type.**
- **We're getting clearer re what we're looking for – if not full BDS market development, at least prefer market-oriented facilitation. Also, we prefer to invest at the scale-up/commercialization stage rather than the “gleam in the eye” stage and look for a clear business model**
- **Difficult to really determine businesslike orientation of BDS facilitator/provider, client demand for services, and appropriateness of business model without on-site appraisal visit**
- **Need more information re the relationship between the facilitator and the providers with which they are working, the specific division of labor**

Lessons and Challenges – continued

- **We and the applicants are still somewhat confused re which pieces of the puzzle need to be sustainable and in what time-frame. Examples: which facilitator functions should be commercialized or spun off to the market over time? which aspects of the new product development process? which pieces of the capacity-building agenda?**
- **Interesting trend of microfinance institutions and networks developing BDS products for finance clients and other entrepreneurs**
- **How exactly do BDS markets develop? The theory is easier to understand than to actually apply. And are there preconditions for applying the BDS market development approach?**

The BDS Research Agenda

- **BDS Research Activities a core part of our 1995-2000 Microenterprise Best Practices project, managed by Development Alternatives, Inc.**
- **Performance Measurement Framework (PMF) development and field-testing (more on Thursday!) – in progress**
- **Contributions to Springfield course, including piece on applying market development to design of BDS interventions**
- **Operational and impact research on vouchers -- in progress**
- **Action research in India on business linkages/clusters and role of network brokers -- in progress**
- **Research on relevance of ICT services to micro-entrepreneurs and on ICT applications for delivery of BDS – completed**
- **Testing of market research tools for BDS – completed**
- **Research on business models and sustainability of Business Service Centers in the Ukraine – completed**
- **All research reports available at www.mip.org**

Issues and Challenges for Donors

- **Which services work? Limited understanding of BDS best practices or even good practices**
- **Which interventions work? Limited understanding of whether and how to do market development. Further, unclear whether and under what circumstances market development will benefit smaller, poorer, and more disadvantaged entrepreneurs**
- **Even if we knew which interventions were most effective, do we have the right human resources to carry them out? Issues of staff capacity, labor-intensiveness, flexible and even ad hoc nature of applying a market development approach**
- **Even if we have the appropriate human resources, do we have the right funding instruments? Grants vs. loans and investments. Funding projects vs. facilitative processes. Disbursement pressures – what do we spend the money on?!!**
- **For USAID, external policy bias against BDS and for microfinance (especially microcredit targeted to the “poorest of the poor”**

NOTES

- **Our lack of clarity re facilitator and provider roles**
- **Breaking down the inviolate wall between MF and BDS. Substantial share of proposals (especially training but not only) came from MFIs or MFI networks. Usually as additional service demanded by their clients – also as means to attract additional MF clients or to retain existing MF clients or to attract different but complementary clientele. But are MFIs as business-like in their BDS as in their financial services?**
- **Are there preconditions for applying a BDS market development approach? Uzbekistan example.**
- **WWB-Colombia example**
- **Africa – more BDS but usually agro-related**
- **ENI – more BDS but due to challenges of creating and supporting an entrepreneurial sector, almost from scratch**